

**Management Advisory Report: Restricting the
Release of Information Through the Exempt
Organization Return Imaging Project**

November 2001

Reference Number: 2002-10-017

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

November 6, 2001

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT
ENTITIES DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - Restricting the Release
of Information Through the Exempt Organization Return
Imaging Project (Audit # 200110032)

This report presents the results of our review of the Tax Exempt and Government Entities (TE/GE) Division's return imaging project. The overall objective of this review was to determine whether sufficient controls exist to provide reasonable assurance that disclosure regulations and statutes have been followed when releasing exempt organization returns through the return imaging project.

In summary, we found from a statistically valid sample of 655 returns that, in most instances, documents were released in accordance with the statute and regulations. We found that images of 13 returns contained information that should not have been released to the public. Our analysis of the returns determined that these mistakes were most likely attributable to human error. While documents were generally released in a manner consistent with the statute and regulations, our audit also identified occurrences where personal and tax payment information were being released to the public. The personal information consisted of home addresses, telephone numbers, Social Security Numbers, and financial account numbers. Although the statute and regulations do not prohibit releasing these data, our recommendations to assess whether this information is necessary for tax administration and to educate taxpayers on the requirement to provide this information will enhance taxpayer privacy and protect the Internal Revenue Service (IRS) from inappropriate refund claims.

Management's Response: IRS management agreed with the recommendations cited in the report and is taking appropriate corrective actions. The Commissioner, TE/GE Division, has agreed to evaluate whether all the personal information requested on

Return of Organization Exempt From Income Tax (Form 990) is necessary for tax administration. TE/GE management will design and implement a customer education initiative on ways to reduce the release of sensitive, personal information through the Form 990. TE/GE management will also determine whether the excise tax credit information can be redacted from the Return of Private Foundation (Form 990-PF) before they are released to the public and, if so, will take appropriate actions to accomplish this. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Management Advisory Report: Restricting the Release of Information Through
the Exempt Organization Return Imaging Project**

Table of Contents

Background	Page 1
Imaged Exempt Organization Returns Are Usually Redacted in Accordance with the Statute and Regulations	Page 2
The Tax Exempt and Government Entities Division Can Improve Protection of Personal Information and Tax Payments When Imaging Form 990 Returns.....	Page 3
<u>Recommendations 1 through 3</u>	Page 6
Appendix I – Detailed Objective, Scope, and Methodology	Page 7
Appendix II – Major Contributors to This Report.....	Page 8
Appendix III – Report Distribution List	Page 9
Appendix IV – Outcome Measures	Page 10
Appendix V – Detailed Sampling Plan	Page 12
Appendix VI – Management’s Response to the Draft Report	Page 16

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Background

The Internal Revenue Code (I.R.C.)¹ requires most tax-exempt organizations to make annual information returns² available for public inspection. Department of the Treasury regulations³ provide that the public may request these returns directly from the tax-exempt organization or by written request to the Internal Revenue Service (IRS).

As a general rule, the statute, regulations, and IRS procedures require the release of Form 990 returns for most tax-exempt organizations, except for the following categories of information:

- Names and addresses of contributors to an organization other than private foundations.
- Amounts of contributions unless the disclosure of such information will not reasonably be expected to identify any contributor. Amounts of contributions to private foundations will be disclosed notwithstanding the preceding sentence.
- Names, addresses, and amounts of contributions of persons who are not citizens of the United States to a foreign organization.
- Confidential business information.
- Correspondence between the IRS and the organization.

In 1996, a joint effort between the Tax Exempt and Government Entities (TE/GE) Division, the Statistics of Income Division (SOI), and the Ogden Submission Processing Center (OSPC) was initiated to provide better service to customers and other stakeholders. The project enabled the IRS to electronically image some of the Form 990 returns. In Calendar Year (CY) 2000, the IRS imaged 380,451 documents through this project.

¹ 26 U.S.C. § 6104(b) (1994 & Supp. V 2000).

² Tax exempt organizations file a Return of Organization Exempt From Income Tax (Form 990) or similar form. The phrase "Form 990 returns" in this report includes Return of Organization Exempt From Income Tax (Form 990), Short Form Return of Organization Exempt From Income Tax (Form 990-EZ), and Return of Private Foundation (Form 990-PF), unless stated otherwise.

³ Treas. Reg. § 301.6104.

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

The imaging equipment was partially funded through a reimbursable agreement with a non-profit organization that provides data to the public and conducts research on many public/social welfare improvement efforts. The reimbursable agreement requires the IRS to deliver electronic images of the Form 990 returns to the non-profit organization on a monthly basis. The images are then made available to the general public through the non-profit organization's Internet site.

This audit was conducted at the IRS offices in Ogden, Utah, and Washington, D.C., between December 2000 and July 2001. This audit was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Imaged Exempt Organization Returns Are Usually Redacted in Accordance with the Statute and Regulations

In most instances, the IRS appropriately restricted exempt organization return information released through the imaging project in accordance with the statute and regulations. Our statistically valid sample of 655 Form 990 returns identified 13 returns (2 percent) that contained information that should not have been released to the public. These cases included:

- Three cases with information on the contributors to the organization. Each of these cases contained names of contributors in attachments to the Form 990 returns. This information is specifically exempt from release under I.R.C. § 6104(b) (1994 & Supp. V 2000).
- Ten cases containing correspondence between the IRS and the exempt organization that could affect the public's perception of the organization. The correspondence was attached to the Form 990 returns. IRS procedures generally require correspondence to be withheld from public release.

These errors were primarily the result of mistakes made by employees responsible for redacting this information from the attachments to the Form 990 returns. The employees reviewing for disclosure issues are required to perform

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

many other tasks in addition to their disclosure responsibilities. These tasks include:

- Disassembling the returns.
- Loading them into the document scanners.
- Manually keypunching required data fields from the returns as well as verifying the keypunching.
- Evaluating the quality of the images produced from the scanned document.
- Reviewing the return and removing information that must be redacted.
- Reassembling the returns.

The Form 990 returns processed through the imaging unit in CY 2000 averaged 17 pages in length, and the terminal operators processed approximately 8.2 Form 990 returns per hour. This production volume results in each employee evaluating approximately 1,100 pages for potential disclosure violations each day.

OSPC management advised us that it planned to establish a quality assurance process, which would include a check for compliance with disclosure regulations and statutes. If this process is implemented, the IRS would have additional assurances that the disclosure regulations and statutes are being followed.

Although the I.R.C. and regulations do not prohibit releasing the data, our review of 655 Form 990 returns identified 494 (75 percent) that contained sensitive personal information about individuals associated with, or receiving grants from, these exempt organizations. This information included:

- Home addresses.
- Telephone numbers.
- Social Security Numbers (SSN) of paid tax return preparers.
- Financial institution account numbers.

The Tax Exempt and Government Entities Division Can Improve Protection of Personal Information and Tax Payments When Imaging Form 990 Returns

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

The Tax Year 2000 Form 990 returns require exempt organizations to provide business contact information. This contact information includes the:

- Names and addresses of Officers, Directors, Trustees, and Key Employees.
- Names and addresses of the five highest paid employees other than Officers, Directors, and Trustees.
- Names and addresses of grant recipients.
- Preparer Taxpayer Identification Numbers (PTIN) or SSNs of the paid tax return preparer.

The instructions for the various sections of the Form 990 returns either do not indicate the type of address to provide or state, "Give the preferred address at which officers, etc., want the Internal Revenue Service to contact them." From the wording of this instruction it appears that the purpose of the address information is for the IRS to contact the individual. The forms contain a line for an SSN or PTIN to be entered if the preparer of the return is paid for the return preparation. Paid tax return preparers were given the option of using either their SSN or PTIN on tax returns they prepare beginning January 1, 2000. There are no requirements to provide officers, employees, or grant recipients telephone numbers or financial institution account numbers on the Form 990 returns.

Statutes provide for public inspection of annual information returns filed by exempt organizations. In addition, the Secretary of the Treasury, through forms and regulations, requires sufficient information to carry out the internal revenue laws. Although the contact information for individuals associated with these exempt organizations is requested by the Form 990 returns, it is not clear whether the personal information provided is necessary for tax administration.

Some Form 990-PF returns contain entries for overpayments of excise taxes, which the exempt organization requests to be applied to a subsequent year tax liability. From our statistically valid sample, we determined that more than 15,000 of the 77,154 Form 990-PF returns

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

contained credit elections applying overpayments to the subsequent tax year. The individual credits ranged from \$6 to \$140,286. The total dollar amount of these credit elections is estimated to be approximately \$104.4 million.⁴

The credit election information is required by the form and is necessary for tax administration. However, because these forms are available to the public, the IRS is providing all the necessary information for an individual with knowledge of IRS processing procedures to file a false refund claim.

Although we did not attempt to identify whether false claims using the Form 990-PF returns have been submitted, there is a substantial risk of monetary losses to the government if an effective strategy is not developed to balance the public release requirements of I.R.C. § 6104 (1994 & Supp. V 2000) with the necessity to combat fraud.

While the public may use the exempt organization return information to make informed decisions on whether to support an organization, there is a risk that employees and individuals associated with exempt organizations may be contacted and subjected to harassment or other unlawful acts as a result of the personal information provided to and released by the IRS. Additionally, releasing SSNs or financial account numbers to the public may result in illegal use of this information and subsequent financial harm.

Representatives of some exempt organizations have made requests to have their personal information removed from the Form 990 return that was placed on the Internet by the non-profit organization. Actions which limit the collection and release of this personal information would be consistent with the IRS policy to handle tax matters in a manner that promotes public confidence, safeguards taxpayer privacy, and limits and controls information use.

⁴ We are 95 percent confident that the volume of Form 990-PF returns containing credit elections to subsequent years is at least 15,483 and that the total dollar amount of these credit elections is \$104.4 million (+ or - \$71.5 million). Additional detail on these calculations is provided in Appendix V.

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Recommendations

1. The Commissioner, TE/GE Division, should determine whether the personal information on exempt organization returns is required to carry out the internal revenue laws. If it is not required, the Commissioner should revise the forms and recommend to the Secretary of the Treasury that applicable regulations be revised.

Management's Response: TE/GE Division management will evaluate whether all the personal information requested on Form 990 is necessary for tax administration, or whether some or all of it can be omitted and the Form 990 and associated regulations changed accordingly.

2. The Commissioner, TE/GE Division, should initiate actions to educate paid return preparers and tax exempt organizations on how to complete the Form 990 returns to reduce the occurrences of personal information being released to the public and develop a methodology to monitor the effectiveness of this effort.

Management's Response: TE/GE Division management will design and implement a customer education initiative on ways to reduce the release of sensitive, personal information through the Form 990, and evaluate whether there is a means to monitor the effectiveness of this initiative.

3. The Commissioner, TE/GE Division, should determine whether the excise tax credit information identified in our review could be redacted from the Forms 990-PF being released to the public to protect the IRS from inappropriate refund claims. Following this determination, the Commissioner may need to initiate actions to revise Treasury Regulation § 301.6104(b)-1 accordingly.

Management's Response: TE/GE Division management will determine whether the excise tax credit information can be redacted from the Forms 990-PF before they are released to the public and, if so, will take appropriate actions to accomplish this.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether sufficient controls exist to provide reasonable assurance that disclosure regulations and statutes have been followed when releasing exempt organization return information through the return imaging project. We reviewed a random sample of imaged returns to determine whether the controls are sufficient to identify risks and correct errors made in redacting information required by disclosure regulations. Specifically, we:

1. Developed a stop-and-go sampling plan and case review methodology with input from Internal Revenue Service (IRS) management.
2. Selected an appropriate number of Form 990 returns,¹ imaged during Calendar Year 2000 to determine the error rate for unauthorized disclosures.
3. Reviewed cases to determine if the information release was in accordance with the statutes, regulations, and IRS procedures. In addition, we determined the number of occurrences where the personal information of individuals associated with or receiving grants from the exempt organization was released.

The detailed statistical sampling plan is included as Appendix V.

¹ Tax exempt organizations file a Return of Organization Exempt From Income Tax (Form 990) or similar form. The phrase “Form 990 returns” in this report includes Return of Organization Exempt From Income Tax (Form 990), Short Form Return of Organization Exempt From Income Tax (Form 990-EZ), and Return of Private Foundation (Form 990-PF), unless stated otherwise.

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Joseph W. Edwards, Director

James V. Westcott, Audit Manager

James T. Avery, Senior Auditor

Steven R. Bohrer, Auditor

Gwendolyn S. Gilboy, Auditor

Gregory W. Holdeman, Auditor

Una K. Smith, Auditor

Marjorie A. Stephenson, Auditor

**Management Advisory Report: Restricting the Release of Information Through
the Exempt Organization Return Imaging Project**

Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Operations N:D C
Commissioner, Small Business and Self-Employed Division S
Deputy Commissioner, Small Business and Self-Employed Division S
Deputy Commissioner, Tax Exempt and Government Entities Division T
Director, Research, Analysis and Statistics of Income N:ADC:R
Director, Statistics of Income Division N:ADC:R:S
Director, Submission Processing Center, Ogden S:CAS:SP:O
Director, Governmental Liaison and Disclosure CL:GLD
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaison:
 Director, Communications and Liaison T:CL

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Privacy – Potential; a minimum of 281,153 taxpayers are affected (see page 3).

Methodology Used to Measure the Reported Benefit:

From our statistical sample of 655 cases from a population of 380,451 documents released through the imaging project, we determined that 75 percent (± 1.1 percent) of the returns contained sensitive personal information about individuals associated with, or receiving grants from, these exempt organizations. A minimum number of taxpayers is reported, although each of the imaged documents could include more than one category of sensitive personal information about one or more taxpayers. This figure is calculated based on the following:

$380,451 \text{ imaged documents} * (75 \text{ percent} - 1.1 \text{ percent}) = 281,153.$

Type and Value of Outcome Measure:

- Increased Revenue Protection – Potential; \$104.4 million (see page 3).

Methodology Used to Measure the Reported Benefit:

We estimated the number of Return of Private Foundation (Form 990-PF) with credit elections to a subsequent year by multiplying the percentage of returns identified in our sample of 328 (24.7 percent) by the population of Form 990-PF returns (77,154). We computed the sampling error (+ or – 4.6 percent). To ensure we conservatively estimate the total dollar amount, we used the low end of the range of Form 990-PF returns containing credit elections (15,483).

To estimate the total dollar amount, we calculated the mean (\$6,740.23) and the standard deviation (\$21,249.97) of the 81 credit elections identified. We multiplied the estimated number of Form 990-PF returns containing credit elections (15,483) by the mean (\$6,740.23) to estimate the total dollar amount of the credit elections (\$104,358,996.38). We then determined the standard error of the mean (\$2,354.92) and multiplied this estimated number in the population containing credit elections (15,483) to calculate the one standard error of the estimated total (\$36,461,274.28). One standard error of the estimated total provides 68 percent confidence that the actual total falls within the estimated range. To estimate the range with 95 percent confidence, we multiplied one standard error of the total (\$36,461,274.28) by

**Management Advisory Report: Restricting the Release of Information Through
the Exempt Organization Return Imaging Project**

1.96 (\$71,464,097.58). By subtracting and adding 1.96 standard errors of the mean (\$71,464,097.58) to and from the estimated total (\$104,358,996.38) we calculated the range of the dollar amount at risk (\$32,894,898.80 to \$175,823,093.96).

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Appendix V

Detailed Sampling Plan

Overall Sample Criteria -

Type of Sample:	Attribute. Errors in redacting items from publicly available images will be considered exceptions.
Confidence Level:	95%
Desired Precision Rate:	+/- .5% (one half)
Expected Rate of Occurrence:	Not to exceed 1%
Formula Used to Calculate Initial Sample Size:	$n = p(1-p)/(SE/t)^2 + p(1-p)/N$ where: n = sample size = 1522 p = expected rate of occurrence = .01 SE = desired precision = .005 t = confidence level factor = 1.96 N = audit universe = 380,451

We prepared a statistical sampling plan with input from management of the Tax Exempt and Government Entities and Statistics of Income Divisions. The sampling plan was reviewed and validated by a statistician under contract with the Treasury Inspector General for Tax Administration.

A request to extract all cases processed through the imaging system for the Calendar Year (CY) 2000 was submitted to Internal Revenue Service management responsible for the imaging project. Management data showed that 380,451 documents were imaged in CY 2000.

After receiving the selected sample cases, we reconciled the number of cases received to the number of sample cases requested. As recommended by our statistician, we then ran a Chi-square test on the form types and processing months for our selected cases to ensure that the distribution is representative of the universe. The results of the test indicated that there was no significant deviation between our sample and the total population.

To minimize the time necessary to complete the testing and address the potential of finding very few errors, we used a stop-and-go (i.e., sequential) sampling technique to complete our case review. We stopped our case review after confirming that the actual error rate could be less than 1 percent. In finding 13 errors in 655 cases, we calculated the error rate to be 2 percent (±1.1 percent), with 95 percent confidence.

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Calculating Sampling Error -

Where all numbers are rounded to tenths	
Confidence Level:	95%
Rate of Occurrence:	2%
Sampling Error Rate Calculation:	$SE = +t * (\sqrt{p(1-p)/n}) * (\sqrt{1-n/N})$ <p>where:</p> <ul style="list-style-type: none"> t = confidence level factor = 1.96 p = actual error rate = 2% n = sample size = 655 N = audit universe = 380,451 SE = actual precision = ± 1.1%
Formula to calculate the upper and lower confidence interval limits:	<p>where:</p> <ul style="list-style-type: none"> p = actual error rate = 2% SE = actual precision = ± 1.1% lower limit = (p-SE) = .9% upper limit = (p+SE) = 3.1%

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Calculating the Percentage of Form 990-PF Returns with Credit Elections

Because our initial sampling methodology was not designed to estimate the value of the credit elect attribute, the resulting sampling error rate is higher than expected.

There were 77,154 Return of Private Foundation (Form 990-PF) returns in the total volume of 380,451 Form 990 returns processed through the imaging unit in CY 2000. We estimated the number of Form 990-PF returns with credit elections to a subsequent year by multiplying the percentage of returns identified in our sample of 328 (24.7 percent) by the population of Form 990-PF returns (77,154). We computed the sampling error (+ or – 4.6 percent). To ensure we conservatively estimate the total dollar amount, we used the low end of the range of Form 990-PF returns containing credit elections (15,483).

Confidence Level:	95 %
Rate of Occurrence:	24.7 % (81 of 328)
Sampling Error Rate Calculation	$SE = \pm t * (\sqrt{p(1-p)/n}) * (\sqrt{1-n/N})$ <p>where:</p> <ul style="list-style-type: none"> t = confidence level factor = 1.96 p = actual rate of occurrence = 24.7 % n = sample size = 328 N = audit universe = 77,154 SE = actual precision = ± 4.6 %
Estimated number of Form 990-PF returns with credit elections	<p>where:</p> <ul style="list-style-type: none"> estimated volume = N * (p) p = actual rate of occurrence = 24.7 % N = audit universe = 77,154 N * p = 77,154 * 24.7 % = 19,053
Upper and Lower Confidence Interval Calculations	<p>where:</p> <ul style="list-style-type: none"> range = (N * (p-SE)) to (N * (p+SE)) p = actual rate = 24.7 % SE = actual precision = ± 4.6 % N = audit universe = 77,154 (p-SE) = lower limit = 20.07 % (p+SE) = upper limit = 29.32 % N * (p-SE) = 77,154 * 20.07 % = 15,483 N * (p+SE) = 77,154 * 29.32 % = 22,623

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Calculating the Total Value of Credit Elections on Form 990-PF Returns

To estimate the total dollar amount, we calculated the mean (\$6,740.23) and the standard deviation (\$21,249.97) of the 81 credit elections identified. We multiplied the estimated number of Form 990-PF returns containing credit elections (15,483) by the mean (\$6,740.23) to estimate the total dollar amount of the credit elections (\$104,358,996.38). We then determined the standard error of the mean (\$2,354.92) and multiplied this estimated number in the population containing credit elections (15,483) to calculate one standard error of the estimated total (\$36,461,274.28). One standard error of the estimated total provides 68 percent confidence that the actual total falls within the estimated range. To estimate the range with 95 percent confidence, we multiplied one standard error of the total (\$36,461,274.28) by 1.96 (\$71,464,097.58). By subtracting and adding 1.96 standard errors of the mean (\$71,464,097.58) to and from the estimated total (\$104,358,996.38) we calculated the range of the dollar amount at risk (\$32,894,898.80 to \$175,823,093.96).

<p>Formulas for estimating the mean and standard deviation</p>	<p>n = number sampled with attribute = 81 N= estimated minimum volume of 990-PF returns with credit elections = 15,483 with 95 % confidence f = sampling fraction = (n/N) = 0.005231 m = mean (average of credit amounts)= \$6,740.23 s.d. = Standard deviation of credit amounts =</p> $\sqrt{(\text{sum of all } (x-m)^2)/(n-1)} = \$21,249.97$ <p>x = value for each credit identified</p>
<p>Estimated total dollars in the population of 990-PFs (m * N) = \$104,358,996.38</p> <p>Standard Error of the Mean = $((s.d.) * \sqrt{(1-f)} / \sqrt{n}) = \\$2,354.92$ 1 Standard Error of the Estimated Total = (standard error * N) = \$36,461,274.28 1.96 Standard Errors of Estimated Total (1.96 = conversion to 95% confidence) = Standard Error * N* 1.96) = \$71,464,097.58</p>	
<p>Estimated range of total credit elections applied to subsequent year Form 990-PF returns</p>	<p>Estimated total = \$104,363,239 (± \$71,464,097.58) Low estimate = \$32,894,898.80 High estimate = \$175,823,093.96</p>

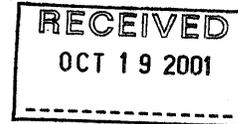
Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



OCT 19 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Evelyn A. Petschek, Commissioner
Tax Exempt and Government Entities Division 

SUBJECT: Response to Draft Audit Report – Restricting the Release of Information Through the Exempt Organization Return Imaging Project

We have carefully considered your recommendations on releasing to the public information on Forms 990 that we image electronically at the Ogden Submission Processing Center. The public gains access to this information through a non-profit organization's internet site.

We appreciate your conclusion that we administer the release of the Form 990 information appropriately in accordance with section 6104 of the Internal Revenue Code and governing regulations.

Your report identifies several circumstances in which personal information is released through the electronic imaging process. You recommend that we investigate whether, consistent with section 6104, we can change our forms or processes, and undertake a public outreach program, to reduce the release of personal information.

Our comments on the specific recommendations in the report are as follows:

IDENTITY OF RECOMMENDATION 1

The Commissioner, TE/GE Division, should determine whether the personal information on exempt organization returns is required to carry out the internal revenue laws. If it is not required, the Commissioner should revise the forms and recommend to the Secretary of the Treasury that applicable regulations be revised.

ASSESSMENT OF CAUSES

TIGTA found that some Form 990 returns filed by exempt organizations contain sensitive personal information about individuals who are associated with these organizations, or who receive grants from them. TIGTA observed that it is not clear whether this personal information is needed for tax administration. TIGTA also recognized that Internal Revenue Code section 6104 requires us to make

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

2

information included on an exempt organization's annual Form 990 return available to the public.

CORRECTIVE ACTIONS

We will evaluate whether all the personal information requested on Form 990 is necessary for tax administration, or whether we can omit some or all of it and change the Form 990 and associated regulations accordingly.

IMPLEMENTATION DATE

September 1, 2002

RESPONSIBLE OFFICIALS

Director, Exempt Organization Examinations
Director, Exempt Organizations Rulings and Agreements

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action through the Business Performance Review (BPR) process of the Commissioner of Internal Revenue, and the Inventory Tracking and Closure (ITC) system of the Treasury Department.

IDENTITY OF RECOMMENDATION 2

The Commissioner, TE/GE Division, should initiate actions to educate paid return preparers and tax exempt organizations on how to complete the Form 990 returns to reduce the occurrences of personal information being released to the public and develop a methodology to monitor the effectiveness of this effort.

ASSESSMENT OF CAUSES

TIGTA found that some exempt organizations file Form 990 returns that contain sensitive personal information about individuals who are associated with these organizations, or who receive grants from them.

CORRECTIVE ACTIONS

We will design and implement a customer education initiative on ways to reduce the release of sensitive, personal information through the Form 990, and evaluate whether there is a means to monitor the effectiveness of this initiative.

IMPLEMENTATION DATE

September 1, 2002

RESPONSIBLE OFFICIAL

Director, Exempt Organizations Customer Education and Outreach.

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action through the BPR process and the ITC system.

Management Advisory Report: Restricting the Release of Information Through the Exempt Organization Return Imaging Project

3

IDENTITY OF RECOMMENDATION 3

The Commissioner, TE/GE Division, should determine whether the excise tax credit information identified in TIGTA's review could be redacted from the Forms 990-PF being released to the public to protect the IRS from inappropriate refund claims. Following this determination, the Commissioner may need to initiate actions to revise Treasury Regulation section 301.6104(b)-1 accordingly.

ASSESSMENT OF CAUSES

TIGTA found that certain Form 990-PF returns contain credit elections applying overpayments to the subsequent tax year. The form requires the credit election information, which is needed for tax administration. However, because these forms are available to the public, the IRS is providing all the information necessary for an individual with knowledge of IRS processing procedures to file a false refund claim.

CORRECTIVE ACTIONS

We will determine whether the excise tax credit information can be redacted from the Forms 990-PF before we release them to the public, and, if so, we will take actions to accomplish this.

IMPLEMENTATION DATE

September 1, 2002

RESPONSIBLE OFFICIAL

Director, Exempt Organizations Rulings and Agreements
Director, Customer Account Services

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action through the BPR process and the ITC system.

We have no opinion on the described benefits in Appendix IV of your report.

If you have any questions about this response, please call R. M. Daly at (202) 283-2300.